
FREDERIC T. KUTSCHER ASSOCIATES, INC.

Comprehensive financial counsel for individuals, families and trusts

January 30, 2007

Each January we summarize the broader influences affecting the previous year's financial markets. As is our custom, we enclose our Capital Markets Review highlighting how various markets performed over the past one, five and ten years.

At the beginning of 2006, soft corporate profits and inflation were predicted for the US. But as the year progressed, largely unanticipated factors pushed corporate profits up and inflation appeared less threatening. The housing peak and slowdown gave the Federal Reserve room to pause from increasing interest rates. Peaking oil prices created record corporate profits for energy companies; energy prices then declined steeply which helped support consumer demand, enhancing corporate profits in other economic sectors.

These contradictions and surprises resulted in continued strength in US corporate earnings and signaled that inflation was perhaps under control. Stable or decreasing interest rates, usually bullish for stocks, helped boost US stocks (the S&P 500 returned 13.6% for the year). US bonds were also affected by these factors, delivering mediocre total returns of 4.3% (intermediate term bonds) and ended with short-term bond yields higher than long-term yields. This so-called "inverted yield curve" reflected a collective uncertainty about future trends in the economy and inflation.

European and Asian economies were also buoyed by strong corporate earnings and tame inflation. After many years of economic weakness, Germany's corporate and government reforms spawned particularly stellar returns for German stocks. Importantly, US investors who remained unhedged against foreign currencies saw an additional 10% return added to their 16% local currency return on the European and Asian markets for a combined return of over 26%.

Looking back at 2006 and seeing how much could not have been predicted confirms our conviction that much of the hype about the market being "bear" or "bull" is the latter. There is no one market. The financial markets are a collection of companies and borrowers in many parts of the world. It's best to

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stay diversified and pick managers who have a passion for sound investment decisions in their own markets. If you have comments or questions as you read this review, we'd welcome the opportunity to discuss them with you.

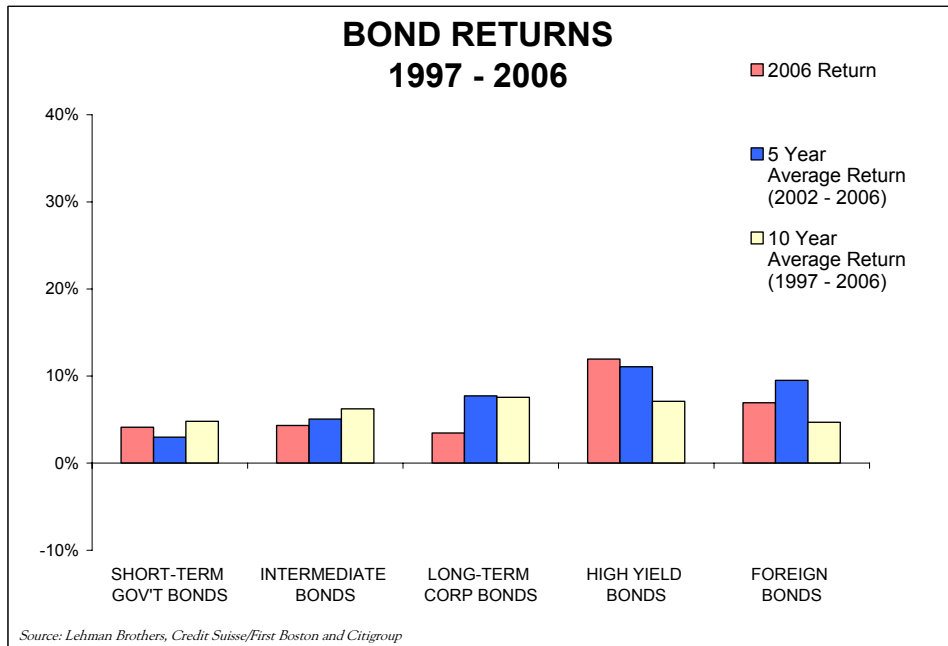
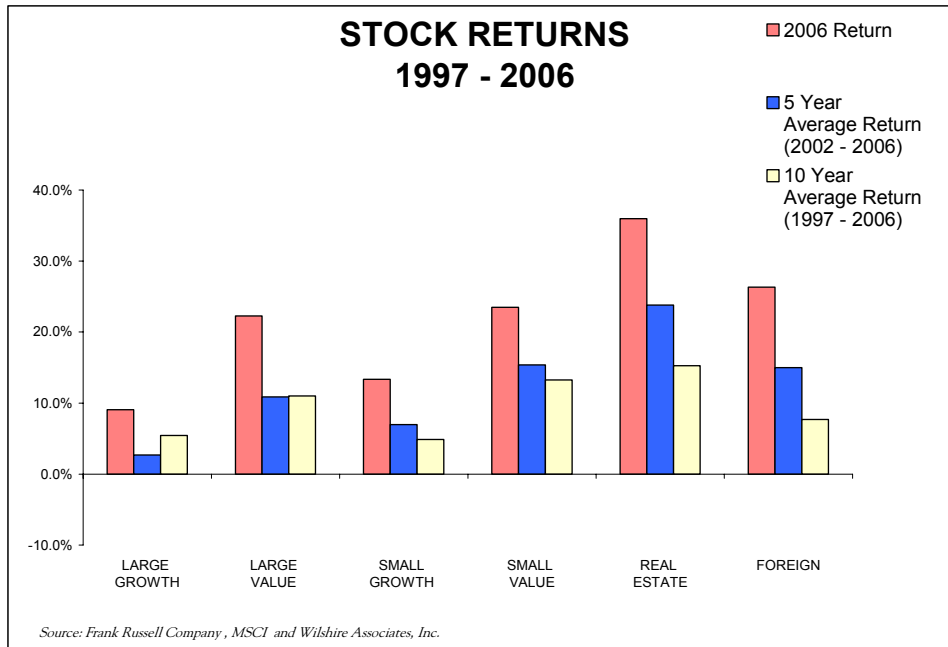
Sincerely yours,

A handwritten signature in blue ink, appearing to read "Ted", with a long, sweeping horizontal line above it.

TED KUTSCHER

P.S. As tax time approaches, a reminder: each year, we send to your accountant information that will be helpful in preparing your tax return or send this information to you if you prepare your own tax return. Please let us know if anything has changed with respect to your tax preparation arrangements since last year.

CAPITAL MARKETS REVIEW



**TOTAL RETURNS
(annualized)**

	1 year (2006)	5 years (2002-2006)	10 years (1997-2006)	COMMENTS
EQUITIES (Stocks & Real Estate)				
US LARGE-CAPITALIZED GROWTH COMPANIES	9.1%	2.7%	5.4%	Large company growth stocks lagged value stocks for one, five and ten year periods. Growth's relative poor showing relative to value for 2006 was primarily due to the growth style's larger holdings in technology and the health care sectors which were underperformers in 2006.
US LARGE-CAPITALIZED VALUE COMPANIES	22.3%	10.9%	11.0%	In 2006, large-cap value stocks' return more than doubled the returns of large-cap growth stocks and kept pace with small-cap value stocks. Over longer periods (five and ten years), value stocks have handsomely outperformed growth stocks.
US SMALL-CAPITALIZED GROWTH COMPANIES	13.4%	7.0%	4.9%	Small-cap growth stocks made a strong showing in 2006 but had the weakest performance of all major equity categories over the last ten years.
US SMALL-CAPITALIZED VALUE COMPANIES	23.5%	15.4%	13.3%	Small-cap value stocks had an exceptional year in 2006 and, excluding real estate equities, beat all styles of stock investing over the five and ten year periods.
REAL ESTATE EQUITIES	36.0%	23.8%	15.3%	Defying predictions that rising interest rates and a slumping housing market would hold down returns, securitized real estate earned a stellar 36% for the year and trumped traditional equity styles over the five and ten year periods.
FOREIGN STOCKS	26.3%	15.0%	7.7%	Foreign stocks returned 26% for the year with about 10% of the return coming from foreign currency gains against the weakening US dollar.

TOTAL RETURNS
(annualized)

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CASH EQUIVALENTS				
CASH – MONEY FUNDS	5.1%	2.5%	3.8%	Cash returns had increased over the course of the last 2 ½ years, then the Fed paused raising interest rates in 2006 as it appeared inflation was not imminent.
BONDS				
SHORT-TERM GOVERNMENT BONDS	4.1%	3.0%	4.8%	Rising short-term interest rates nipped short-term bond returns that resulted in short-term bonds returning less than cash rates.
INTERMEDIATE BONDS	4.3%	5.1%	6.2%	Intermediate bonds only slightly outperformed short-term bonds last year. Over the ten-year period, intermediate bonds were close to their historic average, while over the last five years, intermediate bonds significantly lagged their historic averages due to low interest rates prompted by the Fed's actions to stimulate the economy.
LONG-TERM CORPORATE BONDS	3.5%	7.7%	7.6%	Long-term bonds fared well over the longer periods of five and ten years but suffered in 2006 from an inverted yield curve (higher yields for shorter term bonds than for long-term bonds) which is signaling that the market may have mixed expectations about inflation or deflation in the future.
HIGH-YIELD BONDS	11.9%	11.1%	7.1%	Reversing last year's 2.3% return, 2006 delivered a whopping 11.9% return for high-yield bonds reflecting strengthening company balance sheets and strong corporate profits of even weak companies.
FOREIGN BONDS	6.9%	9.5%	4.7%	Although foreign bonds ended in positive territory for the year, results would have been negative except for the weakening dollar that lent 10% to this asset class.